MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BAC1644 – PRINCIPLES OF FINANCE

(All sections / Groups)

3 MARCH 2016
9.00am – 12.00pm
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **3** pages with **5** Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Attempt all questions. All questions carry equal marks and the distribution of the marks for each question is given.

QUESTION 1

Below are the details of Excel Bond and Win Bond.

Details	Excel Bond	Win Bond
Coupon rate	9%	9%
Coupon payment	Semiannual	Semiannual
Price	At par value	At par value
Maturity	3 years	20 years

a. If interest rates suddenly rise by 2%, what is the percentage change in the price of the two bonds?

(10 marks)

b. If interest rates suddenly fall by 2% instead, what would be the percentage change in the price of the two bonds?

(8 marks)

c. What does this situation tell you about the interest rate risk of longer term bonds?

(2 marks)

[TOTAL 20 MARKS]

QUESTION 2

Assume that 1 year from now, you will deposit RM1,000 into savings account that pays 8%.

a. If the bank compounds interest annually, how much will you have in your account four years from now?

(5 marks)

b. What would your balance four years from now be if the bank used quarterly compounding rather than annual compounding?

(6 marks)

c. Suppose you deposited the RM1,000 in 4 payments of RM250 each at Year 1 till Year 4. How much would you have in your account at Year 4, based on 8% annual compounding?

(5 marks)

d. Suppose you deposited 4 equal payments in your account from Year 1 till Year 4. Assuming an 8% interest, how large would each payments have to be for you to obtain the same ending balance as you calculated in part a.

(4 marks)

[TOTAL 20 MARKS]

QUESTION 3

Solucky Berhad has the following two possible projects. The required return is 12%.

Year / Project	0	1	2	3	4
Project M (RM)	-27,000	13,000	11,400	13,800	9,400
Project N (RM)	-50,000	22,000	21,000	20,000	19,000

a. What is the profitability index for each project? Which project should the company accept?

(10 marks)

b. What is the NPV for each project? Which project should the company accept?

(8 marks)

c. Based on the profitability index and NPV calculated above, which project should the company accept? Why?

(2 marks)

[TOTAL 20 MARKS]

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QUESTION 4

a. Soul Resources has a target capital structure of 55% common stock, 5% preferred stock, and 40% debt. Its cost of equity is 14.3%, the cost of preferred stock is 8.9 percent, and the pre-tax cost of debt is 8.1%. What is the company's WACC if the applicable tax rate is 34%?

(8 marks)

b. Stock in Wonderful Berhad has a beta of 1.06. The market risk premium is 6.8%, and T-bills are currently yielding 3.2%. Wonderful's most recent dividend was RM 1.56 per share, and dividends are expected to grow at a 4% annual rate indefinitely. If the stock sells for RM43 per share, what is your best estimate of Wonderful's cost of equity?

(9 marks)

c. Briefly describe one (1) advantage and disadvantage of dividend growth model.

(3 marks)

[TOTAL 20 MARKS]

QUESTION 5

1. The Signature sells their inventory in 85 days on average. Their average customer charges their purchase on a credit card whereby payment is received in 30 days. On the other hand, The Signature takes 45 days on average to pay for their purchases. The operating cycle of the industry on average is 80 days while the cash cycle for the industry is 50 days. Given this information,

   a. Calculate the operating cycle and cash cycle of The Signature.

   (6 marks)

   b. How do you interpret your answer? Suggests **TWO (2)** ways to improve the situation?

   (6 marks)

2. Proclaim Berhad just paid its annual dividend of RM 1.40. The required return is 16 percent and the dividend growth rate is 2%. What is the expected value of this stock five years from now? Why does the value of this stock depend on dividend?

(8 marks)

[TOTAL 20 MARKS]

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